

NEW FOR 2002

CAUTION - CERTAIN FEDERAL LAWS WERE NOT ADOPTED BY IDAHO

When these instructions were printed, Idaho had not adopted the most recent amendments to the Internal Revenue Code, enacted in the Job Creation and Worker Assistance Act of 2002. Provisions such as bonus depreciation have not been incorporated into Idaho law. If the Idaho Legislature does not adopt these provisions retroactively in 2003, you must make adjustments on your Idaho return if you claimed these items on your federal return.

If you claimed the bonus depreciation for federal purposes, complete a separate Form 4562 for Idaho depreciation

purposes without claiming any amounts for the additional 30% depreciation. Enter the difference between the federal and Idaho Forms 4562 as an "other" addition or subtraction on the Form 41 or 41S.

For the most current information on whether Idaho has conformed to these changes, check the Idaho State Tax Commission Web site at www2.state.id.us/tax.

CREDIT FOR CONTRIBUTIONS TO IDAHO EDUCATIONAL ENTITIES INCREASED

The maximum credit for contributions to Idaho educational entities has increased to \$1,000. The credit continues to be limited to 10% of your income tax liability.

GENERAL INFORMATION

WHO MUST FILE FORM 41

A corporation or association that is transacting business in Idaho, is registered with the Idaho Secretary of State to do business in Idaho, or has income attributable to Idaho must file Form 41. This includes a(n):

- regular corporation subject to the income or franchise tax
- nonprofit organization that receives unrelated business income, as defined in the Internal Revenue Code (IRC). If you do not receive unrelated business income, you are not required to file an Idaho corporate income tax return. However, if you file a federal Form 990, the Idaho State Tax Commission will accept a copy.
- corporation in business solely to perform contracts with the U.S. Department of Energy at the Idaho National Engineering and Environmental Laboratory. This corporation is subject to the Idaho franchise tax. See Franchise Tax, page 2.
- receiver, trustee in dissolution, trustee in bankruptcy, or assignee who possesses or holds title to all or substantially all of the property or business of a corporation, even if the property or business is not being operated
- mutual savings bank that does not have capital stock represented by shares, a domestic building and loan association, a domestic savings and loan association, a federal savings and loan association with substantially all of the business confined to making loans to members, and a cooperative bank without capital stock operated for mutual purposes and without profit
- limited liability company treated as a corporation for federal income tax purposes
- common law trust treated as a corporation for federal income tax purposes
- Real Estate Investment Trust (REIT)
- Regulated Investment Company (RIC)
- homeowners' association
- inactive or nameholder corporation
- nonproductive mining corporation
- publicly traded partnership treated as a corporation under IRC Section 7704

WHO MUST FILE FORM 41S

A corporation filing as an S corporation for federal income tax purposes must file Form 41S if it:

- is transacting business in Idaho; or
- is registered with the Idaho Secretary of State to do business in Idaho.

Idaho accepts the federal approval of the S corporation election. Federal Form 2553 or a copy of the federal notice approving the election must be attached to your Idaho tax return for the first year you file Form 41S.

TRANSACTIONING BUSINESS

Transacting business in Idaho is indicated by, but not limited to, the following activities:

- owning or leasing, as lessor or lessee, any property in Idaho;
- soliciting business in Idaho;
- being a member of a partnership or S corporation with business in Idaho;
- any Idaho activity from which income is received, realized, or derived; or
- having an agent, such as a collector, repair person, delivery person, etc., acting on your behalf in Idaho.

WHAT TO FILE

A complete copy of the federal income tax return must be attached to the Idaho income tax return. If filing a Form 41S, all Schedules K-1 must be attached to the return or submitted with the return on diskette or compact disk. Failure to attach a complete copy of the federal return may cause the return to be delinquent.

WHEN TO FILE

Returns for all corporations, except for farmers' cooperatives, are due on or before the 15th day of the fourth month following the close of the tax year. For a calendar year filer, this is April 15.

The return for a farmers' cooperative is due on or before the 15th day of the ninth month following the close of the tax year. For a calendar year filer, this is September 15.

If the last day for filing a return falls on a Saturday, Sunday or legal holiday, the return is timely if it is filed on the next work day.

WHERE TO FILE

Mail the return and payment to:

IDAHO STATE TAX COMMISSION
PO BOX 56
BOISE ID 83756-0056

GENERAL INFORMATION

ACCOUNTING METHODS

You must use the same accounting method that is used for federal tax purposes. A change of accounting method must have prior approval from the Internal Revenue Service. Attach a copy of the federal approval to your return.

ACCOUNTING PERIOD

You must use the same accounting period that is used for federal tax purposes. A change to the annual accounting period must have prior approval from the Internal Revenue Service. Attach a copy of the federal approval to your return.

AMENDED RETURNS

If you discover an error on your return after it is filed, use this form to amend your return. Check the box at the top of the form and enter the reason for amending. Complete the entire form using the corrected amounts.

If you amend your federal return, an amended Idaho income tax return must be filed. The statute of limitations for receiving a refund is three years from the due date of the return or the date the return was filed, whichever is later.

If you are amending a return for tax years beginning prior to 2001, complete a new return using the corrected numbers on the form for the applicable year. Write AMENDED at the top of the form and attach an explanation of why the return is being amended.

CHECK-THE-BOX REGULATIONS

Idaho follows the federal entity classification (check-the-box) regulations. Therefore, if an entity is classified or taxed as a corporation for federal income tax purposes, it will be treated as a corporation for Idaho income tax purposes.

ELECTRONIC FUNDS TRANSFERS

Tax payments of \$100,000 or more must be paid by electronic funds transfer. If you are making an electronic funds transfer for the first time, contact the Tax Commission at (208) 334-7660 for further information.

ESTIMATED TAX PAYMENTS

A corporation must make estimated tax payments to the Idaho State Tax Commission if it is required to make federal estimated payments and the Idaho tax liability is estimated to be \$500 or more. Estimated taxes are filed on Form 41ES. The estimated payments are due on the 15th day of the 4th, 6th, 9th, and 12th months of the tax year. For a calendar year filer, this is the 15th of April, June, September, and December.

Estimated taxes are not required for the first year a corporation exists in Idaho. The corporation will be sent the necessary estimated payment forms.

EXTENSION OF TIME TO FILE

If you cannot file your return by the due date, Idaho allows you an automatic six-month extension of time to file. To avoid paying a penalty, the amount of tax payments you have made must be at least 80% of the tax due for the current year or 100% of the total tax reported last year. Use Form 41EXT to make your payments.

Even though an extension gives you more time to file, the tax is due on the original due date of the return. You must pay interest on any tax paid after the due date.

Failure to pay the required amount by the original due date will result in a 2% per month penalty from the original due date to the earlier of the date the tax is paid or the extended due date. A 5% per month penalty will also be computed on the tax due from the extended due date to the date of payment if the return is not filed. The maximum penalty is 25%.

FEDERAL AUDIT

If your federal taxable income or tax credits change because of a

federal audit, you must send written notice to the Tax Commission within 60 days of the final federal determination. You must include copies of all schedules supplied by the Internal Revenue Service.

If you owe additional Idaho tax and do not send written notice within 60 days, a 5% negligence penalty will be imposed. Interest applies on any tax due. If the final federal determination results in an Idaho refund and the statute of limitations is closed, you have one year from the date of the final determination to file for the refund.

FRANCHISE TAX

The franchise tax is imposed on a corporation for the privilege of exercising its corporate franchise in Idaho. This includes a corporation in business solely to perform contracts with the U. S. Department of Energy at the Idaho National Engineering and Environmental Laboratory. The tax is computed at 7.6% of Idaho taxable income. Corporations are not subject to both the franchise tax and the income tax.

INTEREST

Interest applies on delinquent tax from the original due date of the return until the tax is paid at the rate of 5% per year (rate effective 1-1-2003 to 12-31-2003).

MINIMUM TAX

The minimum tax of \$20 is required for each corporation that transacts business in Idaho, is registered with the Idaho Secretary of State to do business in Idaho, or is exercising its corporate franchise in Idaho. This includes an S corporation. For a unitary group of corporations, the \$20 minimum tax is required for each corporation in the unitary group that is required to file an Idaho income tax return, even though only one Idaho group return is filed.

The \$20 minimum tax is not required to be paid by the following:

- a nonproductive mining corporation
- a corporation not organized for profit that is not required to pay federal tax on unrelated business income
- a homeowners' association filing Form 1120H and having no federal taxable income.

NET OPERATING LOSSES

A corporation incurs an Idaho net operating loss in a year when it is transacting business in Idaho and its Idaho taxable income is less than zero. A net operating loss incurred by a corporation during a tax year in which it was not transacting business in Idaho may not be subtracted.

For tax years beginning on or after January 1, 2000, the net operating loss generally must be carried back to the two preceding years. The carryback is limited to a maximum of \$100,000. Any remaining loss may be carried forward until used, but no longer than 20 years.

For tax years beginning prior to January 1, 2000, the net operating loss generally must be carried back to the three preceding years. The carryback is limited to a maximum of \$100,000. Any remaining loss may be carried forward until used, but no longer than 15 years.

A corporation can elect to forego the Idaho carryback period and carry the loss forward. This Idaho election must be made before the due date, including extensions, of the loss year return. To make the Idaho election, check the box on line 35 of Form 41, indicating the Idaho election to forego the carryback period, or attach a copy of the federal election to forego the federal net operating loss carryback to the Idaho loss year return.

For tax years prior to 2002, there is no specific line on the Form 41 to claim the net operating loss carryback when filing an amended return. You will need to adjust the Idaho taxable income line

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reducing that amount by the allowable loss and attach a copy of Form 56C or a schedule showing the application of the loss to the amended return. Continue to adjust the return from that point.

An S corporation is not allowed a deduction for a net operating loss carryback or carryforward. The loss must be passed through to the shareholder to be taken on his individual income tax return.

PAYMENTS

Make your check or money order payable to the Idaho State Tax Commission and attach it to the tax return. Payments less than \$100,000 may be made using Visa or MasterCard. Complete and attach Form CCV, Credit Card Payment Voucher. For payments of \$100,000 or more, see ELECTRONIC FUNDS TRANSFERS on page 2.

PENALTIES

Penalties may be imposed on the tax due as follows:

- 0.5% per month or fraction of a month to a maximum of 25% for failure to pay the tax due (if return is filed)
- 2% per month or fraction of a month for failure to meet the extension criteria (the return and taxes must be paid by the extended due date)
- 5% per month or fraction of a month to a maximum of 25% for failure to file the return timely
- 5% for negligence or disregard of rules
- 10% for substantial understatement of tax
- 50% for filing a false or fraudulent return

The minimum penalty is \$10.

PERMANENT BUILDING FUND TAX

A corporation required to file an Idaho income tax return must pay the \$10 permanent building fund tax. This includes homeowners' associations, inactive or nameholder corporations, and nonproductive mining corporations that are registered with the Idaho Secretary of State to do business in Idaho. The \$10 permanent building fund tax must be paid by each corporation in the unitary group that is required to file an Idaho income tax return, even though only one Idaho group return is filed.

An S corporation is required to pay the permanent building fund tax for each individual shareholder who meets the Idaho filing requirement but does not report his S corporation income on an Idaho individual return. If all shareholders file Idaho individual income tax returns, the S corporation is not required to pay the permanent building fund tax.

QUALIFIED SUBCHAPTER S SUBSIDIARIES (QSSS)

Idaho follows the federal election to treat a qualified subsidiary of an S corporation as a QSSS. As a result, the S corporation parent and the subsidiary are treated as one corporation. Income, deductions, and credits of the QSSS are treated as income, deductions, and credits of the parent. Apportionment attributes of the QSSS are also totaled with the parent's apportionment attributes to compute one Idaho apportionment factor.

ROUNDING

Round the amounts on the return to the nearest whole dollar.

SIGNATURE

The return must be signed by an authorized individual on behalf of the corporation.

TAX DUE FOR NONFILING OFFICERS, DIRECTORS, AND SHAREHOLDERS

An individual shareholder, officer, or director may elect to have the corporation or S corporation pay the tax on his income from that corporation or S corporation. This income includes wages, salaries, and other compensation, and the individual's share of income, loss, or deduction. The corporation or S corporation will

be taxed on such income at the corporate rate of 7.6%. An individual cannot make the election if he meets the Idaho filing requirement and must report other income that is not subject to this election. Permission from the Tax Commission is not required.

If an individual who meets the Idaho filing requirement does not make the election, and does not file his Idaho individual income tax return or does not pay the tax due, the corporation or S corporation will be taxed on the income at the corporate rate.

These provisions apply to a corporation with 50% or more of its income taxable by Idaho and to an S corporation that is transacting business in Idaho.

TAX PERIOD/YEAR COVERED BY RETURN

Use the 2002 form to file your tax return for calendar year 2002 or the fiscal year beginning in 2002.

TAX PREPARER CONTACT BOX

A tax preparer contact box is located directly above the signature box. This box applies only if you paid a tax preparer to complete your return. If you check the box, you are authorizing the Tax Commission to contact your preparer to resolve any questions related to your return.

This authorization is valid for up to 180 days from the date the Tax Commission receives the return. If you want the Tax Commission to contact you rather than your preparer, leave the box blank.

GENERAL INFORMATION FOR MULTISTATE/MULTINATIONAL TAXPAYERS AND UNITARY GROUPS

The following instructions apply only to corporations that are taxable in Idaho and another state or country (multistate/multinational corporations) or are part of a unitary group of corporations.

ALLOCATION AND APPORTIONMENT OF INCOME

Business Income. Business income includes income from transactions or activity in the regular course of your trade or business. Business income also includes income from tangible or intangible property if the acquisition, management, or disposition of the property is an integral part of your regular trade or business operations. Business income may result even though the income was derived from an occasional or extraordinary transaction. All business income must be apportioned using the apportionment formula.

Nonbusiness Income. Nonbusiness income is all income other than business income and must be allocated, not apportioned. Allocation is the assignment of nonbusiness income to a specific state.

Apportionment Formula. The apportionment formula consists of three factors: property, payroll, and sales. These percentages are averaged to arrive at the Idaho apportionment factor. For most taxpayers, the sales factor is double weighted.

Electrical and telephone utilities must use a single-weighted sales factor. See the instructions for Form 42.

EXCEPTIONS TO APPORTIONMENT FORMULA

If the allocation and apportionment provisions do not fairly represent your business activity in Idaho, one of the following exceptions may be used:

Separate Accounting. Separate accounting means allocating income and related expenses to the state where the activity occurred. Separate accounting may be used only with prior approval from the Tax Commission. You must submit a written request at least 30 days prior to the due date for filing the return,

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not including extensions. Mail your request to:

INCOME TAX POLICY
IDAHO STATE TAX COMMISSION
PO BOX 36
BOISE ID 83722-0410

Exclusion Of A Factor. If any of the factors (property, payroll, or sales) do not apply to your business, use the remaining factors to compute the Idaho apportionment factor. To determine the average percentage, divide only by the number of factors used. For example, if your corporation has no employees anywhere, the number of factors is reduced by one.

Tax On Gross Sales/Alternative Tax. A corporation that neither owns nor rents Idaho property nor incurs Idaho payroll may elect to pay tax to Idaho at the rate of 1% of gross sales if its Idaho sales are \$100,000 or less.

MODIFIED FACTORS FOR CERTAIN INDUSTRIES

The following businesses must use special rules in computing the apportionment factors:

- Airlines
- Carriers of Freight or Passengers
- Construction Contractors
- Television and Radio Broadcasters
- Publishers
- Financial Institutions

See the instructions for Form 42.

UNITARY BUSINESS

A multistate business is unitary when the operations conducted in Idaho are integrated with, depend on, or contribute to, the business outside Idaho. Some of the tests used to determine if a business is unitary include the following:

- The three unities test. The three elements of a unitary business include:
 1. unity of ownership;
 2. unity of operation as evidenced by central divisions for functions such as purchasing, advertising, accounting and management; and
 3. unity of use in its centralized executive force and centralized system of operations.
- The contribution or dependency test. The operation of the portion of the business done in the state depends on or contributes to the operation of the overall business.

If unity of ownership exists, the presence of any of the following factors creates a strong presumption that the activities of the taxpayer constitute a unitary business:

1. All activities of the group are in the same general line or type of business.
2. The activities of the group constitute different steps in a vertically structured enterprise.
3. The group is characterized by centralized management.

COMBINED REPORTING METHOD

The combined report should not be confused with a federal consolidated return. A combined report refers to the method used to compute the amount of business income to be reported to Idaho by each member of a unitary group and not whether the unitary group files a group return or several returns. This method uses the apportionment factor to measure the economic activities of the taxpayer in a state. Use of the combined report does not disregard the separate corporate identities of the members of the unitary group.

The combined report may be reflected on one group return filed by the unitary group or on two or more returns, one for each member that has an Idaho filing requirement. If a group return is filed for the unitary group, the following information must be disclosed for each corporation that has an Idaho income tax filing requirement:

- Idaho property, payroll, and sales amounts;
- Idaho tax computation;
- Idaho net operating loss calculation; and
- Idaho tax credits and limitations.

The combined reporting method is required if two or more corporations are engaged in a unitary business, and more than 50% of the voting stock is owned directly or indirectly by a common owner or owners. For more information, call (800) 972-7660 to order the Guide to Combined Reporting or obtain a copy at www2.state.id.us/tax/incometaxbrochures.htm.

A change from the use of the combined reporting method is allowed only with prior consent from the Tax Commission. You must submit a written request at least 30 days prior to the due date of the return, not including extensions. Mail your request to:

INCOME TAX POLICY
IDAHO STATE TAX COMMISSION
PO BOX 36
BOISE ID 83722-0410

An S corporation cannot use the combined reporting method.

WORLDWIDE FILING

If a taxpayer is part of a unitary group, the combined report must include the income or loss and apportionment factor attributes of all unitary affiliates with more than 50% common ownership. This includes corporations incorporated outside the United States.

WATER'S EDGE ELECTION

The water's edge election is only applicable to a unitary business that has ownership in at least one foreign affiliate. The business may elect to exclude the foreign affiliate from the combined return and be taxed only on a percentage of any dividends paid from the foreign affiliate.

Only the income and apportionment factors of unitary corporations filing a federal income tax return or included in a federal consolidated return are taken into account in determining Idaho taxable income. Corporations that file elections under IRC Section 936, Puerto Rico and Possession Tax Credit, are not taken into account in determining Idaho taxable income.

To make a valid water's edge election, the Water's Edge Election and Consent Form, Form 14, must be filed with the original return for the first year the election is made. The election cannot be made on an amended return. If a taxpayer wishes to change from the water's edge method to the worldwide filing method, permission must be requested from the Idaho State Tax Commission.

The domestic disclosure spreadsheet must be filed within six months after filing the Form 41. A unitary business may elect to forgo the filing of the spreadsheet; however, the 85% exclusion of dividends from foreign corporations and from IRC Section 936 corporations must be reduced to 80%. The election to forgo filing the spreadsheet is a yearly decision made by checking the "Yes" box on line 9b, Form 41.

To request the Idaho Water's Edge Election and Consent Form, and the domestic disclosure spreadsheet and instructions, call (800) 972-7660. You may obtain a copy of the Water's Edge Election Pamphlet at www2.state.id.us/tax/incometaxbrochures.htm.

An S corporation cannot make a water's edge election.

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MULTISTATE CORPORATE MEMBERS OF PARTNERSHIPS

If a corporation required to file an Idaho income tax return is a member of an operating partnership or joint venture, the corporation must apportion its share of the partnership's business income or loss along with all other net business income or loss of the corporation. The corporation's share of the partnership's property, payroll and sales is determined in the same proportion as the partnership's income is distributed and must be included in the corporation's apportionment computation.

NET OPERATING LOSSES

Each affiliated corporation included in a unitary group return must compute its own share of the combined net operating loss apportioned to Idaho and apply its loss to its apportioned income. The provisions of IRC Sections 381, Carryovers In Certain Corporate Acquisitions, and 382, Limitation On Net Operating Loss Carryforwards and Certain Built-In Losses Following Ownership Changes, apply in computing the Idaho net operating loss. The IRC Section 382 loss limitation is limited by the pre-merger loss corporation's Idaho apportionment factor for the last tax year before the merger.

FORM 41 SPECIFIC INSTRUCTIONS

Instructions are for lines not fully explained on the form.
General information instructions beginning on page 1 also apply to this form.

HEADING

File the 2002 return for calendar year 2002 or a fiscal year that begins in 2002. For a fiscal year, fill in the tax year space at the top of the form.

If you received a preaddressed label that is in error, correct the label and place it over the name and address area of the return. If you did not receive a preaddressed label, type or print the business name, address, and federal employer identification number in the space provided.

AMENDED RETURN

This form can be used as an original return or as an amended return for taxable years beginning in 2002. If you are filing this form as an amended return, check the box at the top of the form. Enter the applicable reason(s) for amending, as listed below. Complete the entire form using the corrected amounts.

1. Federal Audit
2. Capital Loss Carryback
3. Net Operating Loss Carryback - Attach Form 56C or a schedule showing the application of the loss.
4. Other - Attach an explanation.

QUESTIONS 1-10

Mark the appropriate boxes and provide the requested information. Each question must be answered or the return will be considered incomplete. Incomplete returns will cause processing delays.

Question 1 NAME CHANGE

If the corporation changed its name since it last filed, check the "Yes" box and enter the name the way it appeared on the last return filed.

Question 2 FEDERAL AUDIT

If a federal audit was finalized during the tax year, enter the most recent tax year covered in the audit.

Question 3 INACTIVE OR NAMEHOLDER CORPORATIONS

A corporation that is authorized to transact business in Idaho but has no business activity and no income attributable to Idaho would check the "Yes" box.

Question 4 QUARTERLY ESTIMATED PAYMENTS

- a. Check the "No" box if the corporation was not required to make federal quarterly estimated payments in 2002.
- b. Check the "Yes" box if your quarterly estimated payments were based on annualized amounts.

Question 5 FINAL RETURN

If this is the corporation's final return for Idaho, check the box that explains the reason and enter the date the event occurred. Enter the new federal employer identification number (EIN) if the corporation has merged or reorganized.

Question 6 EXTENDED FEDERAL DUE DATE FOR SHORT PERIOD RETURN

If this is a short period return and the corporation has an extended federal due date, enter the federal due date on this line.

Question 7 ELECTRICAL OR TELEPHONE UTILITY

If this return is for an electrical or telephone utility, check the "Yes" box. Electrical and telephone utilities apportion business income using a different apportionment factor calculation.

Question 8 COMBINED REPORTING INFORMATION

Check the "Yes" box if this return is prepared using the combined reporting method. Even if you checked the "No" box, answer questions a through c.

- a. If the corporation filing this return owns more than 50% of another corporation, check the "Yes" box.
- b. If another corporation owns more than 50% of the corporation filing this return, check the "Yes" box.
- c. If the same interest owns more than 50% of the corporation filing this return and another corporation, check the "Yes" box.
- d. Check the "Yes" box if this is a combined report and two or more corporations included in the report are authorized to transact business in Idaho or are transacting business in Idaho.

Question 9 MULTINATIONAL TAXPAYER

- a. If the corporation filing this return is a multinational taxpayer, indicate whether the return is prepared on a worldwide or water's edge method. If you are filing an amended return, you cannot change your election.
- b. If this return is filed by a multinational taxpayer using the water's edge method, you may elect to forgo filing the domestic disclosure spreadsheet by checking the "Yes" box.

Question 10 COMPUTING FOREIGN INCOME

Check the "Yes" box if the income of foreign subsidiaries is computed by conforming their profit and loss statements to tax accounting standards that would be required by the Internal Revenue Service if the foreign subsidiaries were required to file federal income tax returns. All book to tax adjustments must be made for all foreign subsidiaries if this method is used.

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ADDITIONS

LINE 11 FEDERAL TAXABLE INCOME

Enter the taxable income from federal Form 1120, line 30 or federal Form 1120-A, line 26.

Unitary groups having only domestic affiliates (not using Part II, Form 42) should make the following adjustments to the federal consolidated taxable income:

- include the amount of federal taxable income of unitary affiliates commonly owned more than 50% that were not included in the federal consolidated return.
- exclude the amount of federal taxable income of affiliates included in the federal consolidated return that were not unitary.

Both amounts should be adjusted for intercompany transactions.

Unitary groups with foreign affiliates will make these adjustments on Form 42.

LINE 12 INTEREST AND DIVIDENDS NOT TAXABLE UNDER INTERNAL REVENUE CODE

Enter the interest and dividends net of applicable amortization received or accrued from obligations of any state or political subdivision excluded from federal taxable income under the provisions of the IRC. Attach a schedule.

LINE 13 STATE, MUNICIPAL AND LOCAL TAXES

Enter the total of all state, municipal and local taxes measured by net income that have been paid or accrued during the tax year less any refunds that have been included in federal taxable income. Attach a schedule of all taxes deducted on the federal return.

LINE 15 DIVIDENDS RECEIVED DEDUCTION

Enter the special deduction for dividends deducted from federal income as allowed by IRC Sections 243(a) and (c), 244, 245 and 246A.

LINE 16 OTHER ADDITIONS

Enter any miscellaneous Idaho additions. If you are a multinational taxpayer, include the total additions from Form 42, Part II, line 8. Attach a schedule identifying each addition. If you claimed federal bonus depreciation, you must complete a separate Form 4562 to compute your Idaho depreciation without claiming any amounts for the special depreciation allowance. If the federal depreciation is more than the Idaho depreciation, include the difference as an addition on this line. Attach the Form 4562 used to compute the Idaho depreciation.

SUBTRACTIONS

LINE 18 FOREIGN DIVIDEND GROSS-UP

Enter the foreign dividend gross-up, as provided by IRC Section 78, included in federal taxable income.

LINE 19 INTEREST FROM IDAHO MUNICIPAL SECURITIES

Enter interest from securities issued by the state of Idaho and its political subdivisions, if included on line 12.

LINE 20 INTEREST ON U.S. GOVERNMENT OBLIGATIONS

Interest income from obligations of the U.S. Government is not subject to the Idaho tax. Deduct any U.S. Government interest included in federal taxable income, line 11. Examples of obligations of the U.S. Government include but are not limited to:

- Banks for Cooperatives
- Federal Farm Credit Banks
- Federal Financing Bank
- Federal Homeowners Loan Bank
- Federal Intermediate Credit Bank
- Federal Land Bank
- Guam
- Puerto Rico
- Student Loan Marketing Association

- Tennessee Valley Authority Bonds
- Territory of Alaska
- Territory of Hawaii
- Territory of Samoa
- U.S. Series EE and HH Bonds
- U.S. Treasury Bills and Notes
- Virgin Islands

Interest income received from the Federal National Mortgage Association (FNMA) and the Government National Mortgage Association (GNMA) is not paid by the U.S. Government and is subject to Idaho income tax.

LINE 21 INTEREST EXPENSE OFFSET

Enter the amount from line 5 of the following computation. This is the interest expense offset.

- 1a. Interest expense. Total interest expense deducted in determining federal taxable income
- b. Interest expense disallowed under IRC Sections 265 and 291
- c. Interest expense from a pass-through entity
- d. Interest expense of foreign corporations included in the combined report
- e. Subtotal. Add lines a through d.
- f. Interest expense of corporations included in the consolidated federal return but not part of the combined report filed with Idaho
- g. Intercompany interest expense.
- h. Total interest expense. Subtract lines f and g from line e.
2. Total tax-exempt income (interest on qualifying obligations of the United States and interest on qualifying obligations of the state of Idaho, its cities, and political subdivisions)
3. Total income. Refer to Rule 115, Idaho Income Tax Administrative Rules.
4. Divide line 2 by line 3. %
5. Multiply line 1h by line 4.

LINE 23 TECHNOLOGICAL EQUIPMENT DONATION

Enter the fair market value of technological equipment donated to a public elementary or secondary school, public or private college or university, public library, or library district located in Idaho. Items that qualify for this deduction are limited to computers, computer software, and scientific equipment or apparatus manufactured within five years of the date of donation. The amount deducted may not reduce Idaho taxable income to less than zero. Any unused deduction cannot be carried to another year.

LINE 24 ALLOCATED INCOME

Enter the amount of nonbusiness income. A schedule detailing the source of income and explaining why the income was classified as nonbusiness must be attached.

LINE 25 NONBUSINESS EXPENSE OFFSET

Expenses included in federal taxable income that are related to the production of allocated nonbusiness income listed on line 24 must be added back. Related expenses include, but are not limited to interest on indebtedness incurred or continued to purchase or carry the assets that produce the nonbusiness interest and dividend income. Interest expense related to business and nonbusiness income must be prorated. Complete the following computations to calculate the total amount of nonbusiness expense offset.

1. Expenses directly related to nonbusiness income
- 2a. Interest expense. Total interest expense deducted in determining federal taxable income
- b. Interest expense disallowed under IRC Sections 265 and 291
- c. Interest expense from a pass-through entity
- d. Interest expense of foreign corporations included in the combined report

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- e. Subtotal. Add lines a through d.
- f. Interest expense of corporations included in the consolidated federal return but not part of the combined report filed with Idaho if included in line 2a.
- g. Interest expense included in line 1.
- h. Interest expense attributable to tax-exempt income on line 21.
- i. Intercompany interest expense.
- j. Total interest expense. Subtract lines f through i from line e.
3. Total nonbusiness income.
4. Total income. Refer to Rule 115, Idaho Income Tax Administrative Rules.
5. Divide line 3 by line 4. %
6. Multiply line 2j by line 5. This is the interest expense prorated to nonbusiness income.
7. Other expenses related to both business and nonbusiness income.
8. Multiply line 7 by line 5.
9. Add lines 1, 6, and 8. Enter amount on line 25.

LINE 27 OTHER SUBTRACTIONS

Enter any miscellaneous Idaho deductions. Multinational taxpayers include the total deductions from Form 42, Part II, line 14. Attach a schedule identifying each deduction. If you claimed federal bonus depreciation, you must complete a separate Form 4562 to compute your Idaho depreciation without claiming any amounts for the special depreciation allowance. If the federal depreciation is less than the Idaho depreciation, include the difference as a subtraction on this line. Attach the Form 4562 used to compute the Idaho depreciation.

LINE 31 APPORTIONMENT FACTOR

If all the activity is in Idaho, enter 100%. If the corporation has multistate/multinational operations, enter the apportionment factor from Form 42, Part I, line 21. Attach Form 42.

LINE 33 INCOME ALLOCATED TO IDAHO

Enter the amount of nonbusiness income allocated to Idaho less the nonbusiness interest offset computed on line 25 that applies to this income. A schedule detailing the source of income allocated to Idaho must be attached.

LINE 34 IDAHO NET OPERATING LOSS CARRYOVER AND CARRYBACK

Enter the Idaho net operating loss carryover. If this is an amended return to claim a net operating loss carryback, enter the amount of the NOL carryback.

Enter the total of the NOL carryover and carryback amounts on line 34. Attach Form 56C or a schedule showing the application of the loss.

LINE 35 IDAHO TAXABLE INCOME AND ELECTION TO FOREGO NOL CARRYBACK

Enter the Idaho taxable income.

Check the box on line 35 if the corporation elects to forego the Idaho carryback period for a net operating loss. If you check this box, you do not need to attach a separate statement electing to forego the Idaho carryback period. The federal election will be accepted for Idaho purposes only if you attach a copy of the federal election to forego the federal net operating loss carryback to the Idaho loss year return. If you are filing an amended return, you cannot change your election.

TAXES

LINE 36 IDAHO INCOME TAX

Enter the amount of Idaho income tax computed at 7.6% of Idaho taxable income. The amount must be a minimum of \$20. Non-productive mining corporations and nonprofit corporations with no unrelated business income are not subject to the \$20 minimum

tax. Each corporation included in a group return and required to file is subject to the \$20 minimum tax.

If a multistate corporation's only activity in Idaho consists of sales that do not exceed \$100,000, the corporation may elect to pay tax at the rate of 1% of gross sales. Show the computation on line 36.

For corporations required to pay a franchise tax rather than an income tax, enter the amount of the franchise tax on this line. This tax is also computed at 7.6% of Idaho taxable income. See franchise tax on page 2.

CREDITS

If you are filing a combined return, the following credits can be shared with members of the combined group rather than carried forward to future years:

- Investment tax credit
- Credit for Idaho research activities
- Broadband equipment investment credit
- Incentive investment tax credit

The corporation that earned the credit must claim the credit to the extent allowable against its tax liability before sharing the credit with other members. A corporation that receives the credit through unitary sharing computes the applicable limitations based on its tax. Any unused credit remains with the member that earned the credit. A schedule must be attached identifying the member earning the credit and the members using the credit.

The following credits are available to be transferred to another taxpayer rather than used by the taxpayer who earns the credit:

- Broadband equipment investment credit
- Incentive investment tax credit

To claim a credit you acquired through a transfer, you must attach a copy of the Idaho Statement of Credit Transfer, Form 70, to each return on which you are claiming transferred credit.

LINE 37 CREDIT FOR CONTRIBUTIONS TO IDAHO EDUCATIONAL ENTITIES

If the corporation donated cash or goods to a qualified educational entity, it may claim a tax credit. The credit is limited to the smallest of:

- one-half of the amount donated,
- 10% of the tax on line 36, or
- \$1,000

A qualified educational entity includes:

- a nonprofit corporation, fund, foundation, research park, trust, or association organized and operated exclusively for the benefit of Idaho colleges and universities
- a nonprofit, private or public Idaho school (elementary, secondary or higher education) or its foundation
- Idaho education public broadcast system foundations
- the Idaho State Historical Society or its foundation
- an Idaho public library or its foundation
- an Idaho library district or its foundation
- an Idaho public or private nonprofit museum
- the Idaho State Library

LINE 38 INVESTMENT TAX CREDIT

If you acquire an asset for use in your business, you may have earned an investment tax credit.

Report the earned credit computed on line 2, Part I, Form 49, and the allowed credit computed on line 9b or line 10, Part II, Form 49, or line 7, Part II, Form 55. Attach Form 49 and Form 55 if applicable.

FORM 41

LINE 39 CREDIT FOR CONTRIBUTIONS TO IDAHO YOUTH AND REHABILITATION FACILITIES

If the corporation donated cash or goods to a qualified center for independent living, to a youth or rehabilitation facility or their foundations, or to a nonprofit substance abuse center licensed by the Idaho Department of Health and Welfare, it may claim a tax credit. The credit is limited to the smallest of:

- one-half of the amount donated,
- 10% of the tax on line 36, or
- \$500

The qualified youth or rehabilitation facilities and their foundations are:

- Anchor House
- The Arc, Inc., Boise
- The Children's Home Society of Idaho, Inc., Boise
- Dawn Enterprises, Inc., Blackfoot
- Development Workshop, Inc., Idaho Falls
- Gem Youth Services, Emmett
- High Reachers, Inc., Mountain Home
- Hope House, Inc., Nampa
- Idaho Elks Rehabilitation Hospital, Inc., Boise
- Idaho Youth Ranch
- Kinderhaven, Sandpoint
- Magic Valley Rehabilitation Services, Inc., Twin Falls
- New Day Products, Inc., Pocatello
- Northwest (North Idaho) Children's Home
- Opportunities Unlimited, Inc., Lewiston
- Panhandle Special Needs, Inc., Sandpoint
- Transitional Employment Services for the Handicapped, Coeur d'Alene
- Western Idaho Training Co., Inc., Caldwell
- Winchester Occupational Workshop, Winchester

The following are the qualified centers for independent living:

- Disability Action Center Northwest, Moscow and Coeur d'Alene
- Living Independence Network Corporation, Boise and Twin Falls
- Living Independently For Everyone, Blackfoot, Idaho Falls, and Pocatello

LINE 40 CREDIT FOR PRODUCTION EQUIPMENT USING POST-CONSUMER WASTE

If you purchased equipment that manufactures a product from post-consumer or post-industrial waste, you may be entitled to a tax credit. The credit is 20% of your cost to purchase qualified equipment.

Qualified equipment is machinery or equipment in Idaho with a useful life of three years or more. In addition, 90% of the equipment's production must result in products utilizing post-consumer or post-industrial waste.

The credit claimed in a tax year is limited to the lesser of \$30,000 or your tax liability. You may carry forward the unused portion of the credit up to seven years.

Product is any manufactured material that is composed of at least 50% post-consumer or post-industrial waste and offered for sale. Product does not include shredded material unless it is incorporated directly into the manufacturing process.

Post-consumer waste or post-industrial waste includes only glass, paper, or plastic that have been, or would have been, disposed of as solid waste. It does not include radioactive or hazardous waste.

Attach a schedule showing your computations, listing the qualified equipment, identifying the post-consumer or post-industrial waste products, and identifying the newly manufactured products.

LINE 41 NATURAL RESOURCES CONSERVATION CREDIT

If you filed an Application for Natural Resources Conservation

Income Tax Credit for Tax Year 2002, enter the amount approved on that application by the Natural Resources Conservation Income Tax Credit Committee. The maximum tax credit allowed cannot exceed \$2,000. You may not claim a credit if you did not file an application or if the credit you requested was not approved.

LINE 42 PROMOTER-SPONSORED EVENT CREDIT

If you issued temporary sales tax permits to participants of a promoter-sponsored event on behalf of the Tax Commission, you may claim a \$1 credit for each temporary permit issued during the tax year. Promoter-sponsored events include swap meets, flea markets, gun shows, and fairs. You must have filed Form ST-124 with the Tax Commission to qualify for the credit.

LINE 43 CREDIT FOR QUALIFYING NEW EMPLOYEES

Idaho allows a credit for qualifying new employees of a corporation involved in the producing, assembling, fabricating, manufacturing, or processing of natural resource products.

Report the earned credit computed on line 8, Part I, Form 55, and the allowed credit computed on line 27, Part II, Form 55. Attach Form 55.

LINE 44 CREDIT FOR IDAHO RESEARCH ACTIVITIES

If you incurred expenses for research conducted in Idaho, you may have earned the credit for Idaho research activities.

Report the earned credit computed on line 16, Form 67, and the allowed credit computed on line 28 or line 32, Form 67. Attach Form 67.

LINE 45 BROADBAND EQUIPMENT INVESTMENT CREDIT

If the corporation acquired qualified broadband equipment to use in its business in Idaho, it may qualify for the broadband equipment investment credit. You may also claim this credit if you acquired the credit through a transfer.

Report the earned credit computed on line 2, Form 68, and the allowed credit computed on line 16 or line 20, Form 68. Attach Form 68.

LINE 46 INCENTIVE INVESTMENT TAX CREDIT CARRYOVER

You may claim this credit if you have incentive investment tax credit carryover from the tax year beginning in 2001 or received the credit by transfer or unitary sharing in 2002.

Report the allowed credit computed on line 15 or line 19, Form 69. Attach Form 69.

OTHER TAXES

LINE 49 PERMANENT BUILDING FUND TAX

Enter \$10 for each corporation required to file, including nonproductive mining corporations. Each corporation included in a group return and required to file must pay the \$10 permanent building fund tax.

LINE 50 FUELS TAX DUE

If you buy gasoline, aircraft fuel, or special fuels (diesel, propane, natural gas) without paying the fuels tax and later use this fuel in licensed vehicles or aircraft, fuels tax is due. Add the amounts on lines 3 and 4, Section IV, Form 75 and enter the total. Attach Form 75.

LINE 51 TAX FROM RECAPTURE OF INVESTMENT TAX CREDIT

If you have claimed an investment tax credit on property that ceases to qualify before the end of the five-year recapture period, you must recompute the investment tax credit. This includes property moved outside of Idaho. The difference between the original credit and the recomputed credit must be recaptured.

Enter the amount from line 15, Part III, Form 49R. Attach Form 49R.

FORM 41

LINE 52 TAX FROM RECAPTURE OF BROADBAND EQUIPMENT INVESTMENT CREDIT

If you have claimed a broadband equipment investment credit on property that ceases to qualify before the end of the five-year recapture period, you must recompute the broadband equipment investment credit. The difference between the original credit and the recomputed credit must be recaptured.

Enter the amount from line 15, Part III, Form 68R. Attach Form 68R.

LINE 53 TAX FROM RECAPTURE OF INCENTIVE INVESTMENT TAX CREDIT

If you have claimed an incentive investment tax credit on property that ceases to qualify before the end of the five-year recapture period, you must recompute the incentive investment tax credit. The difference between the original credit and the recomputed credit must be recaptured.

Enter the amount from line 15, Part III, Form 69R. Attach Form 69R.

LINE 54 TAX ON IDAHO COMPENSATION

If the apportionment factor on line 31 is 50% or more, an individual officer, director, or shareholder may elect to have the corporation report and pay tax on his wages, salaries and other compensation from the corporation that are reportable to Idaho. The election cannot be made if the individual has other Idaho income to report. Compute the tax by multiplying the wages, salaries, and other compensation reportable to Idaho by 7.6%.

LINE 56 UNDERPAYMENT INTEREST

Use Part I, Form 41ESR, Underpayment of Estimated Tax by Corporations, to determine if there is an underpayment of any quarterly estimated payments. Enter the amount of underpayment interest from Part II, Form 41ESR. Attach Form 41ESR.

If this is an amended return, enter the amount from the original return.

PAYMENTS AND OTHER CREDITS

LINE 58 ESTIMATED TAX PAYMENTS

Enter the total amount of estimated tax payments made for the tax year 2002 from the following forms:

- Forms 41ES, Payment of Estimated Idaho Business Income Tax;
- Form 41EXT, Extension of Time Payment-Idaho Business Income Tax; and
- the amount applied from your 2001 return.

LINE 59 SPECIAL FUELS AND GASOLINE TAX REFUND

The special fuels (diesel, propane, natural gas) tax refund is available to those who use the fuel for heating or in off-highway equipment and have paid the tax on the special fuels purchased. Enter the amount from line 2, Section IV, Form 75. Attach Form 75.

The gasoline tax refund is available to those who buy and use gasoline in off-highway equipment or auxiliary engines. Enter the amount from line 1, Section IV, Form 75. Attach Form 75.

REFUND OR PAYMENT DUE

LINE 62 PENALTY AND INTEREST

Penalty: If the corporation files a return after the due date or fails to pay the required amount by the due date, a penalty may be due. To avoid paying any penalty, the corporation must:

- pay by the original due date at least 80% of the tax due on the return or 100% of the total tax reported last year, and
- file the return and pay the tax due by the extended due date.

If the corporation pays at least 80% of the tax due on the return or 100% of the total tax reported last year by the original due date, but fails to file the return or pay the remaining tax by the extended due date, the following penalties will apply:

- If the return is filed on or before the extended due date, a 0.5% per month late payment penalty will be computed on tax due from the extended due date to date of payment, or
- If the return is filed after the extended due date, a 5% per month late filing penalty will be computed on tax due from the extended due date to the date the return is filed.

If the corporation does not pay at least 80% of the tax due on the return or 100% of the total tax reported last year by the extended due date, the following penalties will apply:

- If the return is filed by the original due date, a 0.5% per month late payment penalty will be computed on tax due from the date the return is filed to the date of payment.
- If the return is filed on or before the extended due date and the tax is paid on or before the extended due date, a 2% per month extension penalty will be computed on tax due from the original due date to the earlier of the date the tax is paid or the date the return is filed, plus a 0.5% per month late payment penalty will be computed on tax due from the date the return is filed to the date the tax is paid, if the tax is paid after the return is filed.
- If the return is filed on or before the extended due date but the tax is paid after the extended due date, a 2% per month late filing penalty will be computed on tax due from the original due date of the return to the date the return is filed, plus a 0.5% per month late payment penalty will be computed on tax due from the date the return is filed to the date the tax is paid.
- If both the return is filed and the tax is paid after the extended due date, a 5% per month late filing penalty will be computed on tax due from the original due date of the return to the earlier of the date the return is filed or the date the tax is paid.

The minimum penalty is \$10. The maximum penalty is 25% of tax due.

Interest: Interest is charged on the amount of tax due, line 61, from the due date until paid. The rate for 2003 is 5%.

LINE 65 REFUND

If you are filing an original return, you have the option of receiving all or a portion of the overpayment listed on line 64 as a refund, or applying all or a portion of the overpayment to your 2003 estimated tax. Enter the amount you wish to receive as a refund on this line. If you enter the total amount from line 64, you must enter zero on line 66.

LINE 66 ESTIMATED TAX

If you are filing an original return, you have the option of applying all or a portion of the overpayment listed on line 64 as a credit against your 2003 estimated tax. The amount you list on this line plus the amount on line 65 must equal the overpayment listed on line 64. If you listed the total overpayment as the amount you want refunded to you on line 65, you must enter zero on this line.

AMENDED RETURN ONLY

Complete lines 67 through 70 only if you are filing this return as an amended return for 2002.

LINE 67 TOTAL TAX DUE OR OVERPAYMENT ON THIS RETURN

If the tax due shown on line 63 is greater than zero, enter this amount on line 67. The amount from line 63 should be entered as a positive amount.

If line 63 is zero, enter the amount of overpayment from line 64 on line 67. The amount from line 64 should be entered as a negative amount.

FORM 41S SPECIFIC INSTRUCTIONS

Instructions are for lines not fully explained on the form.
General information instructions beginning on page 1 also apply to this form.

The S corporation must provide each shareholder with a schedule that shows all Idaho income, deductions, apportionment factors, tax credits and tax credit recapture reportable by the shareholder. A copy of this schedule and the federal Schedule K-1, Form 1120S must be attached to the Idaho Form 41S.

HEADING

File the 2002 return for calendar year 2002 or a fiscal year that begins in 2002. For a fiscal year, fill in the tax year space at the top of the form.

If you received a preaddressed label that is in error, correct the label and place it over the name and address area of the return. If you did not receive a preaddressed label, type or print the business/company name, address, and federal employer identification number in the space provided.

AMENDED RETURN

This form can be used as an original return or as an amended return for tax years beginning in 2002. If you are filing this form as an amended return, check the box at the top of the form. Enter the applicable reason(s) for amending, as listed below. Complete the entire form using the corrected amounts.

1. Federal Audit
2. Capital Loss Carryback
3. Other - Attach an explanation.

QUESTIONS 1-10

Mark the appropriate boxes and provide the requested information. Each question must be answered or the return will be considered incomplete. Incomplete returns will cause processing delays.

Question 1 NAME CHANGE

If the corporation changed its name since it last filed, check the "Yes" box and enter the name the way it appeared on the last return filed.

Question 2 FEDERAL AUDIT

If a federal audit was finalized during the tax year, enter the most recent tax year covered in the audit.

Question 3 INACTIVE OR NAMEHOLDER CORPORATIONS

A corporation that is authorized to transact business in Idaho but has no business activity and no income attributable to Idaho would check the "Yes" box.

Question 4 QUARTERLY ESTIMATED PAYMENTS

- a. Check the "No" box if the corporation was not required to make federal quarterly estimated payments in 2002.
- b. Check the "Yes" box if your quarterly estimated payments were based on annualized amounts.

Question 5 FINAL RETURN

If this is the corporation's final return for Idaho, check the box that explains the reason and enter the date the event occurred. Enter the new federal employer identification number (EIN) if the corporation has been merged or reorganized.

Question 6 ELECTRICAL OR TELEPHONE UTILITY

If this return is for an electrical or telephone utility, check the "Yes" box. Electrical and telephone utilities apportion business income using a different apportionment factor calculation.

Question 7 OWNERSHIP CHANGE

Check the "Yes" box if a shareholder terminated his interest in the corporation or if a new shareholder acquired an interest in the corporation.

Question 8 CREDIT FOR QUALIFYING NEW EMPLOYEES

Enter the amount shown on line 8, Part I, Form 55. This is the credit for qualifying new employees the corporation earned for the tax year.

Question 9a INVESTMENT TAX CREDIT

Enter the amount shown on line 2, Part I, Form 49. This is the Idaho investment tax credit the corporation earned for the tax year.

Question 9b BROADBAND EQUIPMENT INVESTMENT CREDIT

Enter the amount shown on line 2, Form 68. This is the broadband equipment investment credit the corporation earned for the tax year.

Question 9c CREDIT FOR IDAHO RESEARCH ACTIVITIES

Enter the amount shown on line 16, Form 67. This is the credit for Idaho research activities the corporation earned for the tax year.

Question 10a RECAPTURE OF INVESTMENT TAX CREDIT

Enter the amount shown on line 9, Part III, Form 49R.

Question 10b RECAPTURE OF BROADBAND EQUIPMENT INVESTMENT CREDIT

Enter the amount shown on line 9, Part III, Form 68R.

Question 10c RECAPTURE OF INCENTIVE INVESTMENT TAX CREDIT

Enter the amount shown on line 9, Part III, Form 69R.

INCOME

LINE 14 PORTFOLIO INCOME

Enter your net portfolio income or loss from Form 1120S, Schedule K, lines 4a through 4f.

LINE 15 OTHER INCOME

Enter your other income from Form 1120S, Schedule K, lines 5 and 6.

LINE 16 DEDUCTIONS

Enter your deductions from Form 1120S, Schedule K, lines 7 through 10 plus the lesser of line 11a or 11b(1) less 11b(2).

ADDITIONS

LINE 18 INTEREST AND DIVIDENDS NOT TAXABLE UNDER INTERNAL REVENUE CODE

Enter the interest and dividends net of applicable amortization received or accrued from obligations of any state or political subdivision excluded from federal income under the provisions of the IRC. Attach a schedule.

LINE 19 STATE, MUNICIPAL AND LOCAL TAXES

Enter the total of all state, municipal and local taxes measured by net income that have been paid or accrued during the tax year less any refunds that have been included in federal income. Include taxes paid on capital gains, built-in gains and excess net passive income. Attach a schedule of all taxes deducted on the federal return.

LINE 20 OTHER ADDITIONS

Enter any miscellaneous Idaho additions. Attach a schedule identifying each addition. If you claimed federal bonus depreciation, you must complete a separate Form 4562 to compute your Idaho depreciation without claiming any amounts for the special depreciation allowance. If the federal depreciation is more than the Idaho depreciation, include the difference as an addition on this line. Attach the Form 4562 used to compute the Idaho depreciation.

FORM 41S

SUBTRACTIONS

LINE 22 INTEREST FROM IDAHO MUNICIPAL SECURITIES

Enter interest from securities issued by the state of Idaho and its political subdivisions, if included on line 18.

LINE 23 INTEREST ON U.S. GOVERNMENT OBLIGATIONS

Interest income from obligations of the U.S. Government is not subject to the Idaho tax. Deduct any U.S. Government interest included in federal income. Examples of obligations of the U.S. Government include but are not limited to:

- Banks for Cooperatives
- Federal Farm Credit Banks
- Federal Financing Bank
- Federal Homeowners Loan Bank
- Federal Intermediate Credit Bank
- Federal Land Bank
- Guam
- Puerto Rico
- Student Loan Marketing Association
- Tennessee Valley Authority Bonds
- Territory of Alaska
- Territory of Hawaii
- Territory of Samoa
- U.S. Series EE and HH Bonds
- U.S. Treasury Bills and Notes
- Virgin Islands

Interest income received from the Federal National Mortgage Association (FNMA) and the Government National Mortgage Association (GNMA) is not paid by the U.S. Government and is subject to Idaho income tax.

LINE 24 INTEREST EXPENSE OFFSET

Enter the amount from line 5 of the following computation. This is the interest expense offset.

- 1a. Interest expense. Total interest expense deducted in determining federal income.
- b. Interest expense disallowed under IRC Sections 265 and 291
- c. Interest expense from a pass-through entity
- d. Intercompany interest expense
- e. Total interest expense. Add lines a through c and subtract line d.
2. Total tax-exempt income (interest on qualifying obligations of the United States and interest on qualifying obligations of the state of Idaho, its cities, and political subdivisions)
3. Total income. Refer to Rule 115, Idaho Income Tax Administrative Rules.
4. Divide line 2 by line 3.%
5. Multiply line 1e by line 4.

LINE 26 TECHNOLOGICAL EQUIPMENT DONATION

Enter the fair market value of technological equipment donated to a public elementary or secondary school, public or private college or university, public library, or library district located in Idaho. Items that qualify for this deduction are limited to computers, computer software, and scientific equipment or apparatus manufactured within five years of the date of donation. The amount deducted may not reduce Idaho taxable income to less than zero. Any unused deduction cannot be carried to another year.

LINE 27 ALLOCATED INCOME

Enter the amount of nonbusiness income. A schedule detailing the source of income and explaining why the income was classified as nonbusiness must be attached.

LINE 28 NONBUSINESS EXPENSE OFFSET

Expenses included in computing federal income that are related to the production of allocated nonbusiness income listed on line 27

must be added back. Related expenses include, but are not limited to interest on indebtedness incurred or continued to purchase or carry the assets that produce the nonbusiness interest and dividend income. Interest expense related to business and nonbusiness income must be prorated. Complete the following computations to calculate the total amount of nonbusiness expense offset.

1. Expenses directly related to nonbusiness income
- 2a. Interest expense. Total interest expense deducted in determining federal income
- b. Interest expense disallowed under IRC Sections 265 and 291
- c. Interest expense from a pass-through entity
- d. Subtotal. Add lines a through c.
- e. Interest expense included in line 1.
- f. Interest expense attributable to tax-exempt income on line 24.
- g. Intercompany interest expense
- h. Total interest expense. Subtract lines e, f and g from line d.
3. Total nonbusiness income
4. Total income. Refer to Rule 115, Idaho Income Tax Administrative Rules.
5. Divide line 3 by line 4.%
6. Multiply line 2h by line 5. This is the interest expense prorated to nonbusiness income.
7. Other expenses related to both business and nonbusiness income.
8. Multiply line 7 by line 5.
9. Add lines 1, 6, and 8. Enter amount on line 28.

LINE 30 OTHER SUBTRACTIONS

Enter any miscellaneous Idaho deductions. Attach a schedule identifying each deduction. If you claimed federal bonus depreciation, you must complete a separate Form 4562 to compute your Idaho depreciation without claiming any amounts for the special depreciation allowance. If the federal depreciation is less than the Idaho depreciation, include the difference as a subtraction on this line. Attach the Form 4562 used to compute the Idaho depreciation.

LINE 34 APPORTIONMENT FACTOR

If all the activity is in Idaho, enter 100%. If the S corporation has multistate/multinational operations, enter the apportionment factor from Form 42, Part I, line 21. Attach Form 42.

LINE 36 INCOME ALLOCATED TO IDAHO

Enter the amount of nonbusiness income allocated to Idaho less the nonbusiness expense offset computed on line 28 that applies to this income. A schedule detailing the source of income allocated to Idaho must be attached.

LINE 37 IDAHO COMPENSATION OF OFFICERS, DIRECTORS, AND SHAREHOLDERS

Add the wages, salaries, and other compensation reportable to Idaho of individual shareholders, officers, and directors who elect to have the S corporation pay the tax on this income. The election cannot be made if the shareholder, officer, or director has other Idaho income to report. Do not include the amounts paid to a shareholder, officer, or director who does not meet the Idaho individual income tax filing requirements.

LINE 38 INCOME REPORTED ON SHAREHOLDERS' IDAHO RETURNS

Determine the amounts from lines 35 and 36 that are reported by the shareholders on their Idaho income tax returns. Do not enter amounts attributable to individual shareholders who have no other income reportable to Idaho and elect to report S corporation income on the S corporation return. Include amounts attributable to individual shareholders who do not meet the Idaho individual income tax filing requirements.

FORM 41S

CREDITS

Credits earned by the S corporation are passed through to each shareholder based on that shareholder's pro rata share of S corporation income or loss. When an S corporation has a fiscal year end other than that of the shareholder, the credit passes through in the same period that the S corporation income or loss is required to be reported by the shareholder for federal tax purposes.

The S corporation must prepare and distribute to each shareholder a schedule that shows all Idaho income and deductions that must be reported on the shareholder's Idaho income tax return. The schedule must also include the shareholder's pro rata share of amounts that are eligible for tax credits. Each shareholder uses this credit information to determine the amount of Idaho credit, credit recapture and credit carryover to be reported on the Idaho income tax return. Credits reported by each shareholder are subject to the limitations applicable to that shareholder. Copies of these schedules must be attached to the Idaho S Corporation Income Tax Return for the year in which the credit is earned. Credit information reported on the schedule should include the following:

- Donations to a qualified educational entity
- Qualified investment eligible for the investment tax credit
- Donations to a qualified center for independent living, substance abuse center, or to a youth or rehabilitation facility or their foundations
- Costs of qualifying equipment eligible for the credit for production equipment using post-consumer waste
- Amount approved for the natural resources conservation credit
- Amount of promoter-sponsored event credit
- Amount of credit for qualifying new employees
- Amount of credit for Idaho research activities
- Amount of broadband equipment investment credit
- Amount of incentive investment tax credit
- Amount of recapture for any of the credits

If an individual shareholder elects to have his share of the income taxed on the S corporation's return, the tax may be offset by the credit allowed to that shareholder. Credits applied to this tax are computed based on the credit limitations applicable to corporations. For example, if an S corporation pays the tax for three individual shareholders, the amount of credit for contributions to educational institutions is the lesser of the following amounts:

- 50% of the three shareholders' share of the amount donated
- 10% of the tax computed for the three shareholders, or
- \$500

The following credits are available to be transferred to another taxpayer rather than used by the taxpayer who earns the credit:

- Broadband equipment investment credit
- Incentive investment tax credit

To claim a credit you acquired through a transfer, you must attach a copy of the Idaho Statement of Credit Transfer, Form 70, to each return on which you are claiming transferred credit.

LINE 41 CREDIT FOR CONTRIBUTIONS TO IDAHO EDUCATIONAL ENTITIES

If the S corporation donated cash or goods to a qualified educational entity, it may claim a tax credit. The credit is limited to the smallest of:

- one-half of the amount donated,
- 10% of the tax on line 40, or
- \$1,000

A qualified educational entity includes:

- a nonprofit corporation, fund, foundation, research park, trust, or

association organized and operated exclusively for the benefit of Idaho colleges and universities

- a nonprofit, private or public Idaho school (elementary, secondary or higher education) or its foundation
- Idaho education public broadcast system foundations
- the Idaho State Historical Society or its foundation
- an Idaho public library or its foundation
- an Idaho library district or its foundation
- an Idaho public or private nonprofit museum
- the Idaho State Library

LINE 42 INVESTMENT TAX CREDIT

If you acquire an asset for use in your business, you may have earned an investment tax credit.

Report the allowed credit computed on line 9b or line 10, Part II, Form 49, or line 7, Part II, Form 55. Attach Form 49 and Form 55 if applicable.

LINE 43 CREDIT FOR CONTRIBUTIONS TO IDAHO YOUTH AND REHABILITATION FACILITIES

If the S corporation donated cash or goods to a qualified center for independent living, to a youth or rehabilitation facility or their foundations, or to a nonprofit substance abuse center licensed by the Idaho Department of Health and Welfare, it may claim a tax credit. The credit is limited to the smallest of:

- one-half of the amount donated,
- 10% of the tax on line 40, or
- \$500

The qualified youth or rehabilitation facilities and their foundations are:

- Anchor House
- The Arc, Inc., Boise
- The Children's Home Society of Idaho, Inc., Boise
- Dawn Enterprises, Inc., Blackfoot
- Development Workshop, Inc., Idaho Falls
- Gem Youth Services, Emmett
- High Reachers, Inc., Mountain Home
- Hope House, Inc., Nampa
- Idaho Elks Rehabilitation Hospital, Inc., Boise
- Idaho Youth Ranch
- Kinderhaven, Sandpoint
- Magic Valley Rehabilitation Services, Inc., Twin Falls
- New Day Products, Inc., Pocatello
- Northwest (North Idaho) Children's Home
- Opportunities Unlimited, Inc., Lewiston
- Panhandle Special Needs, Inc., Sandpoint
- Transitional Employment Services for the Handicapped, Coeur d'Alene
- Western Idaho Training Co., Inc., Caldwell
- Winchester Occupational Workshop, Winchester

The following are the qualified centers for independent living:

- Disability Action Center Northwest, Moscow and Coeur d'Alene
- Living Independence Network Corporation, Boise and Twin Falls
- Living Independently For Everyone, Blackfoot, Idaho Falls, and Pocatello

LINE 44 CREDIT FOR PRODUCTION EQUIPMENT USING POST-CONSUMER WASTE

If you purchased equipment that manufactures a product from post-consumer or post-industrial waste, you may be entitled to a tax credit. The credit is 20% of your cost to purchase qualified equipment.

Qualified equipment is machinery or equipment in Idaho with a useful life of three years or more. In addition, 90% of the equipment's production must result in products utilizing post-consumer or post-industrial waste.

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The credit claimed in a tax year is limited to the lesser of \$30,000 or your tax liability. You may carry forward the unused portion of the credit up to seven years.

Product is any manufactured material that is composed of at least 50% post-consumer or post-industrial waste and offered for sale. Product does not include shredded material unless it is incorporated directly into the manufacturing process.

Post-consumer waste or post-industrial waste includes only glass, paper, or plastic that have been, or would have been, disposed of as solid waste. It does not include radioactive or hazardous waste.

Attach a schedule showing your computations, listing the qualified equipment, identifying the post-consumer or post-industrial waste products, and identifying the newly manufactured products.

LINE 45 NATURAL RESOURCES CONSERVATION CREDIT

If you filed an Application for Natural Resources Conservation Income Tax Credit for Tax Year 2002, enter the amount approved on that application by the Natural Resources Conservation Income Tax Credit Committee. The maximum tax credit allowed cannot exceed \$2,000. You may not claim a credit if you did not file an application or if the credit you requested was not approved.

LINE 46 PROMOTER-SPONSORED EVENT CREDIT

If you issued temporary sales tax permits to participants of a promoter-sponsored event on behalf of the Tax Commission, you may claim a \$1 credit for each temporary permit issued during the tax year. Promoter-sponsored events include swap meets, flea markets, gun shows, and fairs. You must have filed Form ST-124 with the Tax Commission to qualify for the credit.

LINE 47 CREDIT FOR QUALIFYING NEW EMPLOYEES

Idaho allows a credit for qualifying new employees of an S corporation involved in the producing, assembling, fabricating, manufacturing, or processing of natural resource products.

Report the credit computed on line 27, Part II, Form 55. Attach Form 55.

LINE 48 CREDIT FOR IDAHO RESEARCH ACTIVITIES

If you incurred expenses for research conducted in Idaho, you may have earned the credit for Idaho research activities.

Report the allowed credit computed on line 28 or line 32, Form 67. Attach Form 67.

LINE 49 BROADBAND EQUIPMENT INVESTMENT CREDIT

If the S corporation acquired qualified broadband equipment to use in its business in Idaho, it may qualify for the broadband equipment investment credit. You may also claim this credit if you acquired the credit through a transfer.

Report the allowed credit computed on line 16 or line 20, Form 68. Attach Form 68.

LINE 50 INCENTIVE INVESTMENT TAX CREDIT CARRYOVER

You may claim this credit if you have incentive investment tax credit carryover from the tax year beginning in 2001 or received the credit by transfer in 2002.

Report the allowed credit computed on line 15 or line 19, Form 69. Attach Form 69.

OTHER TAXES

LINE 53 MINIMUM TAX

A minimum tax of \$20 is required. If the S corporation owes federal tax on excess net passive income, capital gains, or built-in gains, compute the Idaho tax using the following instructions:

- The Idaho tax on excess net passive income is computed by multiplying 7.6% by the lesser of Idaho apportioned excess net passive income or Idaho apportioned taxable income. See federal Form 1120S instructions. Attach a copy of the computations.
- The Idaho tax on capital gains or built-in gains is computed by multiplying 7.6% by the Idaho apportioned net capital gain or Idaho apportioned net recognized built-in gain. See federal Form 1120S, Schedule D instructions. Attach a copy of the computations.
- If the corporation was previously a C corporation with investment tax credit carryover, the credit may be used to offset up to 50% of the tax.

If the total tax computed is more than \$20, draw a line through the 20 printed on the form. Enter the total Idaho tax on excess net passive income, capital gains, and built-in gains less applicable investment tax credit carryover on line 53. The total tax before investment tax credit cannot be less than \$20.

LINE 54 PERMANENT BUILDING FUND TAX

S corporations that report taxable income on line 39 are required to pay the \$10 permanent building fund tax for each individual shareholder that elects to have the corporation pay the tax on his income from the S corporation. S corporations are also required to pay this tax for each individual shareholder who is required to file, but does not file, an Idaho individual income tax return. A nonresident individual shareholder is required to file if his share of the S corporation's Idaho gross income is more than \$2,500.

LINE 55 FUELS TAX DUE

If you buy gasoline, aircraft fuel, or special fuels (diesel, propane, natural gas) without paying the fuels tax and later use this fuel in licensed vehicles or aircraft, fuels tax is due. Add the amounts on lines 3 and 4, Section IV, Form 75 and enter the total. Attach Form 75.

LINE 56 TAX FROM RECAPTURE OF INVESTMENT TAX CREDIT

If you have claimed an investment tax credit on property that ceases to qualify before the end of the five-year recapture period, you must recompute the investment tax credit. This includes property moved outside Idaho. The difference between the original credit and the recomputed credit must be recaptured.

Enter the amount from line 15, Part III, Form 49R. Attach Form 49R.

LINE 57 TAX FROM RECAPTURE OF BROADBAND EQUIPMENT INVESTMENT CREDIT

If you have claimed a broadband equipment investment credit on property that ceases to qualify before the end of the five-year recapture period, you must recompute the broadband equipment investment credit. The difference between the original credit and the recomputed credit must be recaptured.

Enter the amount from line 15, Part III, Form 68R. Attach Form 68R.

LINE 58 TAX FROM RECAPTURE OF INCENTIVE INVESTMENT TAX CREDIT

If you have claimed an incentive investment tax credit on property that ceases to qualify before the end of the five-year recapture period, you must recompute the incentive investment tax credit. The difference between the original credit and the recomputed credit must be recaptured.

Enter the amount from line 15, Part III, Form 69R. Attach Form 69R.

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LINE 60 UNDERPAYMENT INTEREST

Use Part I, Form 41ESR, Underpayment of Estimated Tax by Corporations, to determine if there is an underpayment of any quarterly estimated payments. Enter the amount of underpayment interest from Part II, Form 41ESR. Attach Form 41ESR.

If this is an amended return, enter the amount from the original return.

PAYMENTS AND OTHER CREDITS

LINE 62 ESTIMATED TAX PAYMENTS

Enter the total amount of estimated tax payments made for the tax year 2002 from the following forms:

- Forms 41ES, Payment of Estimated Idaho Business Income Tax;
- Form 41EXT, Extension of Time Payment-Idaho Business Income Tax; and
- the amount applied from your 2001 return.

LINE 63 SPECIAL FUELS AND GASOLINE TAX REFUND

The special fuels (diesel, propane, natural gas) tax refund is available to those who use the fuel for heating or in off-highway equipment and have paid the tax on the special fuels purchased. Enter the amount from line 2, Section IV, Form 75. Attach Form 75.

The gasoline tax refund is available to those who buy and use gasoline in off-highway equipment or auxiliary engines. Enter the amount from line 1, Section IV, Form 75. Attach Form 75.

REFUND OR PAYMENT DUE

LINE 66 PENALTY AND INTEREST

Penalty: If the S corporation files a return after the due date or fails to pay the required amount by the due date, a penalty may be due. To avoid paying any penalty, the S corporation must:

- pay by the original due date at least 80% of the tax due on the return or 100% of the total tax reported last year, and
- file the return and pay the tax due by the extended due date.

If the S corporation pays at least 80% of the tax due on the return or 100% of the total tax reported last year by the original due date, but fails to file the return or pay the remaining tax by the extended due date, the following penalties will apply:

- If the return is filed on or before the extended due date, a 0.5% per month late payment penalty will be computed on tax due from the extended due date to date of payment, or
- If the return is filed after the extended due date, a 5% per month late filing penalty will be computed on tax due from the extended due date to the date the return is filed.

If the S corporation does not pay at least 80% of the tax due on the return or 100% of the total tax reported last year by the original due date, the following penalties will apply:

- If the return is filed by the original due date, a 0.5% per month late payment penalty will be computed on tax due from the date the return is filed to the date of payment.
- If the return is filed on or before the extended due date and the tax is paid on or before the extended due date, a 2% per month extension penalty will be computed on tax due from the original due date to the earlier of the date the tax is paid or the date the return is filed, plus a 0.5% per month late payment penalty will be computed on tax due from the date the return is filed to the date the tax is paid, if the tax is paid after the return is filed.
- If the return is filed on or before the extended due date but the tax is paid after the extended due date, a 2% per month late filing penalty will be computed on tax due from the original due date of the return to the date the return is filed, plus a 0.5% per month late payment penalty will be computed on tax due from the date the return is filed to the date the tax is paid.
- If both the return is filed and the tax is paid after the extended due date, a 5% per month late filing penalty will be computed on tax due from the original due date of the return to the earlier of the date the return is filed or the date the tax is paid.

The minimum penalty is \$10. The maximum penalty is 25% of the tax due.

Interest: Interest is charged on the amount of tax due, line 65, from the original due date until paid. The rate for 2003 is 5%.

LINE 69 REFUND

If you are filing an original return, you have the option of receiving all or a portion of the overpayment listed on line 68 as a refund, or applying all or a portion of the overpayment to your 2003 estimated tax. Enter the amount you wish to receive as a refund on this line. If you enter the total amount from line 68, you must enter zero on line 70.

LINE 70 ESTIMATED TAX

If you are filing an original return, you have the option of applying all or a portion of the overpayment listed on line 68 as a credit against your 2003 estimated tax. The amount you list on this line plus the amount on line 69 must equal the overpayment listed on line 68. If you listed the total overpayment as the amount you want refunded to you on line 69, you must enter zero on this line.

If you are filing an amended return, you must enter the same amount as reported on the original return.

AMENDED RETURN ONLY

Complete lines 71 through 74 only if you are filing this return as an amended return for 2002.

LINE 71 TOTAL TAX DUE OR OVERPAYMENT ON THIS RETURN

If the tax due shown on line 67 is greater than zero, enter this amount on line 71. The amount from line 67 should be entered as a positive amount.

If line 67 is zero, enter the amount of overpayment from line 68 on line 71. The amount from line 68 should be entered as a negative amount.

INSTRUCTIONS FOR FORM 42

SUPPLEMENTAL SCHEDULE FOR MULTISTATE/MULTINATIONAL BUSINESS

Part I of this form provides the computation of the Idaho apportionment factor and is to be used by taxpayers who have income from business activity that is taxable in Idaho and another state or country.

Part II of this form provides the worldwide and water's edge adjustments to compute combined income. Part II must be used by a corporation that has ownership in at least one foreign affiliate.

PART I APPORTIONMENT FORMULA

GENERAL INFORMATION

If the taxpayer transacts business in Idaho and another state or country, attach a schedule showing apportionment detail by company.

Corporations

When a unitary group files using the combined reporting method, each corporation included in the combined group must compute its own apportionment factors. It does this by including its total Idaho property, sales, or payroll in the numerators and using the property, sales, or payroll of all the corporations included in the combined report in the denominators. Form 42 is used to show the total for the unitary group. A schedule must be attached detailing the Idaho apportionment factor computation for each corporation in the group.

Worldwide Filers. For multinational unitary groups using the worldwide filing method, the denominators include the total property, sales, and payroll of all domestic and foreign corporations included in the unitary group.

Water's Edge Filers. For multinational unitary groups using the water's edge filing method, the denominators include only the total property, sales, and payroll of the water's edge combined group. This would exclude the property, sales, and payroll of foreign subsidiaries whose income is not included in the computation of apportionable income. To the extent the dividends are included in apportionable income, they are included in the sales factor denominator.

All intercompany amounts should be excluded from the computation of the apportionment factors.

Property Factor

The property factor is a fraction. The numerator is the average value of real and tangible personal property owned or rented and used in Idaho during the tax year to produce business income. The denominator is the average value of all the taxpayer's real and tangible personal property owned or rented and used during the tax year to produce business income. Property used in the production of nonbusiness income is excluded from the factor.

Property is included in the factor if it is actually used or capable of being used during the tax year in the regular course of the trade or business of the taxpayer. Property under construction is excluded.

Property owned by the taxpayer is valued at its original cost. Original cost is the basis of the property for federal income tax purposes (prior to any federal adjustments) when it was acquired by the corporation and adjusted for subsequent capital additions or improvements, special deductions or partial disposition because of sale, exchange, abandonment, etc. Depreciation does not reduce original cost.

The average value of property owned by the taxpayer is computed by averaging the values at the beginning and ending of the tax year. The Idaho State Tax Commission may require or allow the averaging of monthly values to properly reflect the average values.

Property rented is valued at eight times the net annual rental rate. The net annual rental rate for any item of rented property is the total rents paid for the property, less the aggregate annual subrental rates paid by subtenants. Subrents are not deducted when the subrents are business income.

Sales Factor

The sales factor is double weighted for all taxpayers except electrical and telephone utilities. Electrical and telephone utilities use a single-weighted sales factor.

The sales factor is a fraction. The numerator is the gross receipts derived during the year from transactions and activities attributable to Idaho in the regular course of the taxpayer's trade or business. The denominator is the total gross receipts derived during the tax year from transactions and activities everywhere in the regular course of the corporation's trade or business. Receipts derived from the production of nonbusiness income are excluded from the sales factor.

Sales means all gross receipts derived from transactions and activity in the regular course of trade or business. Gross receipts means gross sales, less returns and allowances. Gross receipts from sales of tangible personal property are assigned to Idaho if:

- property is delivered or shipped to a purchaser in Idaho regardless of F.O.B. point or other conditions of sales; or
- property is shipped from an office, store, warehouse, factory, or other place of storage in Idaho and the taxpayer is not taxable in the state of the purchaser (throwback sales) or the purchaser is the United States Government.

Sales also include gross receipts from services and all other gross receipts such as interest, dividends, rents, royalties, gross receipts from the sale of property, and other income derived by the taxpayer in the regular course of business. If gross receipts do not fairly represent the extent of your business activity in Idaho, you may petition, or may be required, to use another method to obtain an equitable result. Income from services is attributable to this state to the extent that the services are performed in Idaho.

Although the following amounts may be business income, gross receipts do not include such items as the repayment, maturity, or redemption of the principal of a loan, bond, mutual fund or certificate of deposit or similar marketable instrument, the principal amount received under a repurchase agreement, the proceeds from issuing your own stock or from the sale of treasury stock, damages or other amounts received from litigation, property acquired by an agent on behalf of another, tax refunds or other tax benefit recoveries, pension reversions, contributions to capital, income from the forgiveness of indebtedness, and amounts realized from exchanges of inventory that are not recognized by the IRC.

Payroll Factor

The payroll factor is a fraction. The numerator is the compensation paid in Idaho during the tax year to produce business income. The denominator is the total compensation paid during the tax year to produce business income. Compensation connected with the production of nonbusiness income is excluded from the payroll factor.

The total amount paid to employees is determined on the basis of the taxpayer's accounting method. Under the accrual method, all compensation properly accrued is deemed to have been paid.

If the taxpayer is required to report the compensation under the cash method for unemployment compensation purposes, compensation paid to employees may be included in the payroll factor using the cash method.

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Compensation means wages, salaries, commissions and any other form of payment to employees for personal services. Payments made to an independent contractor, or any other person not properly classifiable as an employee, are excluded.

Compensation is paid in Idaho if any one of the following tests are met:

- the individual's service is performed entirely within Idaho; or
- the individual's service is performed both in and outside Idaho but the service performed outside Idaho is incidental to the individual's service in Idaho; or
- some of the service is performed in Idaho and the base of operations or, if there is no base of operations, the place from which the service is directed or controlled is in Idaho; or
- some of the service is performed in Idaho and the base of operations, or the place from which the service is directed or controlled, is not in any state in which some part of the service is performed, but the individual's residence is in Idaho.

MODIFIED FACTORS FOR CERTAIN INDUSTRIES

Idaho has adopted the Multistate Tax Commission (MTC) regulations for the following special industries. Examples of the computations of these factors are found in the applicable MTC regulations on the Internet. The State Tax Commission Web site has a link to these regulations at www2.state.id.us/tax/links.htm. Click on MTC Model Regulations.

Airlines

If you are in the business of transporting passengers, freight or mail by air, your apportionment factor should reflect the movement of your transportation equipment and personnel. This is done by including transportation revenue, property ready for flight, and transportation payroll in the Idaho numerators based on the percentage of Idaho departures of aircraft weighted as to the value of aircraft by type to the total departures similarly weighted.

The value of nonflight property and nonflight payroll will be allocated to the state based on the general apportionment rules.

Carriers of Freight and Passengers

If you are in the business of transporting passengers, freight, or mail by motor carrier or rail, your apportionment factor should reflect the movement of your transportation equipment and personnel. This is done by including the transportation revenue, property and payroll in the Idaho numerators based on the percentage of miles traveled in Idaho to miles traveled everywhere.

Other revenue, fixed property, and compensation of employees assigned to fixed locations are included in the factors based on the general apportionment rules. Per diem and mileage charges paid or received for the temporary use of railroad cars should not be included in the sales or property factors.

Contractors

You must use the same long-term contract accounting method for Idaho reporting purposes that you used for federal reporting purposes.

If the percentage of completion method is used, the following special rules apply in addition to the general property, payroll, and sales factor rules.

The property factor denominator includes the average value of the taxpayer's cost of construction in progress (including materials and labor) to the extent the costs exceed progress billings. The portion of this amount attributable to construction projects in Idaho is included in the Idaho numerator. If progress billings exceed construction costs, do not include any value in the property factors for the taxpayer's equity in the project.

The sales factor includes only the portion of the gross contract price which corresponds to the percentage of the entire contract which was completed at the end of the tax year. For example, if

the project was 30% complete at the end of the tax year, 30% of the bid price should be included in the gross receipts. Gross receipts from a construction project are attributable to Idaho if the construction is located in Idaho. Gross receipts from a construction project located partially in Idaho are included in the numerator based on ratio of construction costs for the project in Idaho for the tax year to the total of construction costs for that project for the tax year.

Compensation paid for work on a particular construction project is included in the payroll factor even though capitalized into the cost of construction. Compensation is attributable to the state where most of the employee's service is performed, regardless of where reported for unemployment tax purposes.

Publishers

If you are in the business of publishing, selling, licensing or distributing books, newspapers, magazines, periodicals, trade journals or other printed material, include outer-jurisdictional property in the property factor whether owned or rented if used in your business. Outer-jurisdictional property includes such items as orbiting satellites and undersea transmission cables which are not physically located in any particular state. The portion of outer-jurisdictional property attributable to Idaho is computed based on the ratio of Idaho usage to usage everywhere.

The sales numerator includes gross receipts from the sale of printed materials delivered or shipped to a purchaser or subscriber in Idaho. Gross receipts from the advertising and the sale, rental or other use of customer lists are included as Idaho sales as determined by a circulation factor.

If the purchaser or subscriber is the U.S. Government or you are not taxable in the state, the gross receipts are attributable to Idaho if the printed material or other property is shipped from a business location in Idaho.

Broadcasters

If you are in the business of conducting television or radio broadcasts, either through a network or through an affiliated, unaffiliated or independent television or radio broadcasting station, your apportionment factor should exclude outer-jurisdictional, film and radio programming property. Outer-jurisdictional property includes orbiting satellites and undersea transmission cables which are not physically located in any particular state. Film programming means performances, events, or productions telecast, live or otherwise, on television. It includes news and sporting events in the format of a motion picture, a video tape, or other medium. Radio programming means all performances, events or productions broadcast live or otherwise on radio. It includes commercial, educational or artistic works, in the format of an audio tape, disc or other medium.

Audio or video cassettes, discs or similar medium containing film or radio programming which is intended for sale or rental for home viewing or listening is included in the property factor at original cost.

The value of property located or used in Idaho for part of the tax year is included in the Idaho property numerator based on the ratio that the number of days the property is located or used in Idaho bears to the total number of days you owned or rented the property during the tax year.

Idaho sales include advertising revenue from live television, film or radio programming in release to or by television and radio stations located in Idaho and receipts from live telecasts, films and radio programs based on the audience factor.

The payroll factor includes residual and profit participation payments paid to employees, directors, actors, newscasters and other individuals in a role of employee. Amounts paid to an individual, corporation or other business entity for providing the services of directors, actors, newscasters and other talent for a live

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television broadcast, film or radio program are included if such payments were at least 25% of total compensation paid to employees, and that failure to include the amounts would not fairly represent the extent of your business activity in Idaho. The portion of these amounts attributable to Idaho is determined according to the general apportionment rules.

Financial Institutions

If you are a financial institution, your apportionment factor should reflect your business of extending credit through loans and credit cards by including the value of these intangibles in your property factor.

You are a financial institution if you predominantly deal in money or moneyed capital in substantial competition with the business of national banks. Predominantly means more than 50% of your gross income is attributable to dealings in money or moneyed capital. Money or moneyed capital includes coin, cash, currency, mortgages, deeds of trust, conditional sales contracts, loans, commercial paper, installment notes, credit cards, and accounts receivable.

You are presumed to be a financial institution if you are one of the following:

- a corporation registered under state law as a bank holding company or registered under the Federal Bank Holding Company Act, as amended, or registered as a savings and loan holding company under the Federal National Housing Act, as amended;
- a national bank organized under the National Bank Act;
- a savings association or federal savings bank as defined in the Federal Deposit Insurance Act;
- a bank or thrift institution incorporated or organized under the laws of any state;
- a corporation organized under the provisions of Title 12 U.S.C. §§611 to 631;
- an agency or branch of a foreign depository as defined in Title 12 U.S.C. §3101;
- a corporation whose voting stock is more than 50% owned by an entity presumed to be a financial institution (insurance companies excluded); or
- a corporation that in the current year and immediately preceding two years, derived more than 50% of its total gross income for financial accounting purposes from finance leases.

In addition to the property included under the standard property factor as discussed on page 15, the property factor must also include the average value of your loans and credit card receivables. Loans and credit card receivables are valued at their average outstanding principal balance, without regard to any reserve for bad debts.

Loans and credit card receivables are considered located in Idaho if they are properly assigned to a regular place of your business in this state; that is, if the loan has a preponderance of substantive contacts with that place of business. Substantive contacts include solicitation, investigation, negotiation, approval, and administration.

There are also special rules for attributing receipts to a state for purposes of the sales factor. The payroll factor is computed the same as under the standard apportionment rules as discussed on pages 15 and 16.

SPECIFIC INSTRUCTIONS

Instructions are for lines not fully explained on the form. Compute all percentages to four decimal places (00.0000%).

PROPERTY

LINES 1 through 4. Enter the beginning and end of the year total property and Idaho property amounts.

LINE 9. Divide Idaho property by total property (amounts on line 8).

SALES

LINES 11 and 12. Enter the amounts from line 10 that were delivered or shipped to Idaho purchasers (line 11) or that were throwback sales to Idaho (line 12). A sale made in a state that has no jurisdiction to tax the seller is a throwback sale.

LINE 14. Attach a detailed schedule.

LINE 16. Divide Idaho gross receipts by total gross receipts (amounts on line 15).

Electrical and telephone utilities. This is your single-weighted sales factor. Go to line 18.

LINE 17. For all taxpayers other than electrical and telephone utilities, multiply the amount on line 16 by 2. This is your double-weighted sales factor.

PAYROLL

LINE 19. Divide Idaho wages and salaries by total wages and salaries (amounts on line 18).

TOTAL PERCENTAGE

LINE 20. For all taxpayers other than electrical and telephone utilities, add the percentages on lines 9, 17, and 19. For electrical and telephone utilities, add the percentages on lines 9, 16, and 19.

IDAHO APPORTIONMENT FACTOR

LINE 21. For all taxpayers other than electrical and telephone utilities, divide the total on line 20 by 4. For electrical and telephone utilities, divide the total on line 20 by 3.

If any of the factors do not apply to your business, divide the total on line 20 by the number of factors used. For example, if your business has no employees anywhere, your factor is reduced by one.

PART II MULTINATIONAL ADJUSTMENTS

GENERAL INFORMATION

The worldwide filing method is required for all corporations unless the water's edge election has been made. The water's edge election must be made by filing Form 14, Water's Edge Election and Consent Form, with the original tax return filed by the corporation for the tax year. The election cannot be made on an amended return. Permission must be requested from the Idaho State Tax Commission to change from the water's edge method to the worldwide method.

SPECIFIC INSTRUCTIONS

Instructions are for lines not fully explained on the schedule.

To the extent that amounts listed for water's edge filers are different than the amounts listed for worldwide filers, separate instructions are listed.

ADDITIONS

LINE 1 INCOME FROM UNITARY FOREIGN SUBSIDIARIES

Water's Edge Filers. If you are a water's edge filer, disregard this line and go to line 2.

Worldwide Filers. The income of a foreign affiliate included in a consolidated federal return is included on line 11, Form 41.

If foreign affiliates are not included in a consolidated federal return, the corporation can select one of the following options. The option

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selected must be used for all foreign affiliates not included in a consolidated federal return and must be adjusted for the Idaho additions and subtractions listed on Form 41.

Option 1 Enter the net income before income taxes stated on each affiliate's profit and loss statement prepared for the United States Securities and Exchange Commission (SEC). If the profit and loss statement is not filed with the SEC, enter the net income or loss before income taxes reported on the profit and loss statement prepared for reporting to shareholders that is subject to review by an independent auditor.

Option 2 The net income or loss reported on the profit and loss statements may be adjusted to tax accounting standards as would be required by the IRC if the corporation were incorporated in the United States. If a corporation chooses to make the book to tax adjustments, all book to tax adjustments must be made for all unitary foreign corporations not included in the consolidated federal return. The book to tax adjustments must be consistently applied each year the group files a worldwide return.

The provisions of IRC Section 921, Exempt Foreign Trade Income Excluded From Gross Income, do not apply to Foreign Sales Corporations included in this computation.

Attach a schedule detailing the book to tax adjustments by company.

LINE 2 FEDERAL TAXABLE INCOME OF NONCONSOLIDATED UNITARY SUBSIDIARIES

Enter the federal taxable income of unitary subsidiaries incorporated in the United States that are more than 50% commonly owned and that were not included in the federal consolidated return. This is the amount reported on the subsidiary's federal income tax return, Form 1120, adjusted for the Idaho additions and subtractions listed on Form 41. Attach a schedule identifying this income by company.

LINE 3 FOREIGN SALES CORPORATIONS

Water's Edge Filers. Enter the federal taxable income of a Foreign Sales Corporation (FSC) from federal Form 1120-FSC. This is the federal amount computed after applying IRC Section 921, Exempt Foreign Trade Income Excluded From Gross Income.

Worldwide Filers. FSC income is included on line 1.

LINE 4 INCOME OF FOREIGN CORPORATIONS SUBJECT TO FEDERAL TAXATION

Water's Edge Filers. Enter the federal taxable income reported by corporations incorporated outside the United States that are required to file a federal income tax return. This includes foreign corporations filing a federal Form 1120F.

Worldwide Filers. The income of foreign corporations is included on line 1.

LINE 5 IRC SECTION 936 POSSESSION CORPORATIONS

Enter the federal taxable income of corporations filing under IRC Section 936, Puerto Rico and Possession Tax Credit. For water's edge filers, this amount is considered a deemed dividend subject to the dividend exclusion that will be computed under "Subtractions."

LINE 6 INTERCOMPANY ELIMINATIONS

Enter the amount of intercompany transactions between members of the combined group and nonunitary subsidiaries eliminated on

the federal consolidated return. The income of the nonunitary subsidiaries is a subtraction on line 9. Attach a schedule identifying the intercompany transactions by corporation.

LINE 7 OTHER ADDITIONS

Enter any miscellaneous Idaho additions. Attach a schedule identifying each miscellaneous addition by corporation.

SUBTRACTIONS

LINE 9 FEDERAL TAXABLE INCOME OF NONUNITARY SUBSIDIARIES INCLUDED ON THE FEDERAL RETURN

Enter the federal taxable income of nonunitary subsidiaries included in the federal consolidated return. Attach a schedule identifying the income or loss by corporation.

LINE 10 DIVIDEND EXCLUSION

The following dividend exclusions are applicable only to water's edge filers.

- a. **Foreign Dividends.** Enter the total amount of dividends paid by foreign affiliates. Include the amounts of income from controlled foreign corporations under subpart F if included in federal taxable income. Enter the portion of FSC dividends that are not included on line 11.
- b. **Deemed Dividends From Possession Corporations.** Enter the amount from line 5. Do not include any actual dividends paid by possession corporations on this line.
- d. **Exclusion Percentage.** If you elected to forgo filing the water's edge spreadsheets as indicated on line 9b, Form 41, enter 80%. Enter 85% if you are filing the water's edge domestic disclosure spreadsheets.

LINE 11 INTERCOMPANY DIVIDENDS INCLUDED ON THE COMBINED RETURN

Water's Edge Filers. Enter the total of the following amounts:

- the dividend income, included in federal taxable income, received by a member of the water's edge combined group from another member of the water's edge combined group;
- the dividend income, included in federal taxable income, received by a member of the water's edge combined group from a possession corporation; and
- the intercompany dividends paid by a FSC to another member of the water's edge combined group. The amount of dividends determined to be intercompany is the same proportion of the dividend paid as the proportion that FSC federal taxable income for the year out of which the dividend was paid bears to the total FSC income before taxes for that year.

Worldwide Filers. Enter the amount of any dividends paid by a member of the unitary group to another member of the unitary group that have not been subtracted elsewhere on this form or Form 41.

Attach a schedule identifying payors, payees and dividend amounts regardless of the filing method.

LINE 12 INTERCOMPANY TRANSACTIONS INCLUDED ON THE FEDERAL RETURN

Enter the intercompany transactions, between members of the combined group, that have not otherwise been eliminated.

LINE 13 OTHER SUBTRACTIONS

Enter any miscellaneous Idaho deductions. Attach a schedule identifying each miscellaneous deduction by corporation.

These instructions do not provide a comprehensive explanation of Idaho tax laws or rules.

Costs associated with this publication are available from the Idaho State Tax Commission in accordance with Section 60-202, Idaho Code.